

REPORT OF THE FINANCE SUBCOMMITTEE ON PENSION

December 4, 2012

The Honorable,
The Board of Commissioners of Cook County

ATTENDANCE

Present: Chairman Gainer, Vice Chairman Goslin, Commissioners Murphy, Schneider, Steele and Suffredin (6)

Absent: Commissioners Tobolski (1)

Also Present: Commissioners Collins, Daley, Fritchey, Garcia, Gorman, Silvestri and Sims

Ladies and Gentlemen:

Your Finance Subcommittee on Pension of the Board of Commissioners of Cook County met pursuant to notice on Tuesday, December 4, 2012 at the hour of 9:35 A.M. in the Board Room, Room 569, County Building, 118 North Clark Street, Chicago, Illinois.

Your Committee has considered the following item and, upon adoption of this report, the recommendation is as follows:

313151 RESOLUTION TO DISCUSS THE POSSIBLE IMPLICATIONS OF PENSION REFORM LEGISLATION THAT MAY BE DISCUSSED BY THE ILLINOIS GENERAL ASSEMBLY (PROPOSED RESOLUTION). Submitting a Proposed Resolution sponsored by Bridget Gainer, County Commissioner.

PROPOSED RESOLUTION

TO DISCUSS THE POSSIBLE IMPLICATIONS OF PENSION REFORM LEGISLATION THAT MAY BE DISCUSSED BY THE ILLINOIS GENERAL ASSEMBLY

WHEREAS, it is the request of the Cook County Finance Subcommittee on Pension to call a meeting to discuss the possible implications of pension reform legislation that may be discussed by the General Assembly this Fall; and

WHEREAS, it is the request of the Cook County Finance Subcommittee on Pension to call a committee meeting to hear from Cook County Employees regarding the possible changes to the Cook County and Forest Preserve Pension Funds that may be discussed by the General Assembly this Fall; and

WHEREAS, the Cook County Pension Fund has seen an overall fall in its funded status over the past 10 years from 88.8% to its most recent valuation of 60.7% in 2010; and

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WHEREAS, during the January 19, 2011 committee meeting, the Pension Fund's actuary preformed 30-year funding projections for the Cook County Employees' Annuity and Benefit fund which took into account projected benefits, payments, contributions, assets and actuarial liabilities in order to attain the possible options that would increase the funded ratio to 80% at the end of 30 years; and

WHEREAS, the response from the actuary included multiple options to increase the funded ratio for the Cook County Employees' Annuity and Benefit fund.

NOW, THEREFORE, BE IT RESOLVED, the Cook County Finance Subcommittee on Pension shall hold meetings for the purpose of discussing the possible changes to the Cook County and Forest Preserve Pension Funds; and

BE IT FURTHER RESOVLED, the Cook County Finance Subcommittee on Pension shall hold meetings for the purpose of discussing the possible options to increase the funded status of the Cook County and Forest Preserve Pension Funds.

***Referred to the Finance Subcommittee on Pension on 06-14-11.**

****Deferred by the Finance Subcommittee on Pension on 06-29-11.**

*****Deferred by the Finance Subcommittee on Pension on 09-20-11.**

Commissioner Suffredin, seconded by Commissioner Murphy, moved the Approval Communication No. 313151.

Commissioner Suffredin, seconded by Commissioner Steele, moved to Defer Communication No. 313151. The motion carried.

Commissioner Murphy, seconded by Commissioner Steele, requested that Chairman Gainer's slide presentation be made part of the record. (See attachment.)

Chairman Gainer asked the Secretary to the Board to call upon the registered public speaker, in accordance with Cook County Code, Sec. 2-107(dd).

1. Richard Ingram – Executive Director, Illinois Teachers Retirement System
2. Sheila Weinberg – Founder, Institute For Truth In Accounting
3. George Blakemore – Concerned Citizen.


Commissioner Steele moved to Adjourn the meeting, seconded by Commissioner Suffredin. The motion carried and the meeting was Adjourned.

**YOUR COMMITTEE RECOMMENDS THE FOLLOWING ACTION
WITH REGARD TO THE MATTER NAMED HEREIN:**

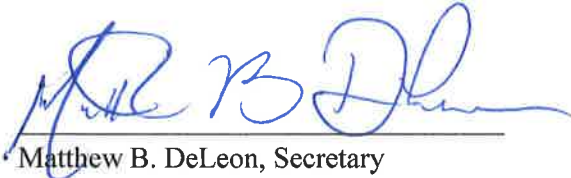
Communication Number 313151

Deferred

Respectfully submitted,
Finance Subcommittee on Pension


Bridget Gainer, Chairman

Attest:


Matthew B. DeLeon, Secretary

*A video recording of this meeting is available on the Office of the Secretary to the Board's web site on the Video Page at <http://blog.cookcountyil.gov/secretarytotheboard/county-board-proceedings/county-board-video-and-audio/>

COOK COUNTY PENSION COMMITTEE MEETING

December 4, 2012

Bridget Gainer
Chairman, Cook County Subcommittee on Pensions
Cook County Commissioner – Tenth District

Meeting Agenda

- Resolution Number 313151
 - Update on Springfield legislation Senate Bill 1673
 - Richard Ingram, Executive Director – Illinois Teachers Retirement Fund
 - Cash Balance Plans
 - What are they?
 - Current Plan Comparison
 - Public Speakers

Senate Bill 1673 (Amendment #5)

House Sponsor – Mike Madigan

Senate Sponsor – Kwame Raoul

- Two major components:
- Consideration:
 - Tier I employees and Tier I retirees elect 1 of 2 options that will impact benefit calculations and eligibility for retiree health insurance.
- Creation of the Cash Balance Plan

SB 1673 Gives State Employees & Retirees Two Options To Consider

| | Option 1 | Option 2 |
|----------------------|---|--|
| Who | Employees and Retirees | Employees and Retirees |
| COLA | 3% Simple; delayed COLA that will begin the January 1st following the earliest of age 67 or the 5th anniversary of the annuity start date | 3% Compounded; no delay in receiving |
| Health care | Eligible to participate in their applicable retiree healthcare plan. | Not eligible to participate in applicable retiree healthcare plans. |
| Pay Increases | No changes | Increases in pay to Tier 1 employees and Tier 1 retirees who return to active service will NOT increase the member's pensionable earnings. |

Link to bill: <http://www.ilga.gov/legislation/97/SB/09700SB1673ham005.htm>

Cash Balance Plans

Illinois General Assembly via SB1673 included a cash balance plan.

- Employees first participating on or after July 1, 2013 are automatically enrolled in the newly created Cash Balance Plan.
- Members, including Tier 1 employees who elect Option 1, may elect to make additional contributions into an optional Cash Balance Plan at 2.0% of pay.

• Three types of contributions to

pension:

- Employee contributes % of salary
- Pay Credit: Employer contributes % of an individual's salary into a notional account.
 - Employer contribution no longer tied to a multiplier or percent of total payroll.
- Interest credit. Employee's notional account receives a credit based on market yield. There is typically a floor: minimum amount, usually tied to 30 year T-bonds and a ceiling: the minimum + a share in the upside if there are higher returns.

• At Retirement:

- Employee can purchase an annuity in the private market
- Employee can take lump sum or opt to receive a monthly annuity.

Comparing Types of Pension Plans

Defined Benefit vs. Defined Contribution vs. Cash Balance

| Defined Benefit | Defined Contribution | Cash Balance |
|--|---|--|
| <ul style="list-style-type: none"> A defined benefit pension plan guarantees an employee a monthly pension benefit annuity upon retirement until their death. Many defined benefit plans allow for the pension benefit to be transferred to a surviving spouse or dependent, but this varies from plan to plan. The retirees are paid by a pension fund which consists of money from the employer and employee. The pension fund is generally invested by an asset manager whose main responsibility is investment and growth of the fund. | <ul style="list-style-type: none"> Defined Contribution plans or 401k plans. The employer and employee both contribute an established amount into the employee's defined contribution plan. The employee then works with an investment manager to invest his funds. When the employee retires he receives whatever monies have accumulated in the plan. Withdrawals are limited only by tax provisions. | <ul style="list-style-type: none"> A cash balance plan is a "hybrid" DB/DC plan. In a typical cash balance plan, a participant's account is credited three ways, the EE contribution, a "pay credit" (such as 5 percent of compensation from his or her employer) and a guaranteed annual interest If investment returns were higher than assumed for a specific period of time a formula allows for employee's to receive an increased investment credit. Participant can decide to take annuity or lump sum payout at retirement. |

Comparing Types of Pension Plans

Defined Benefit vs. Defined Contribution vs. Cash Balance

| | Defined Benefit | Defined Contribution | Cash Balance |
|------------------------------|-------------------|-----------------------------|---------------------|
| Employee Contributions | Yes | Yes | Yes |
| Employer Contributions | Yes | Yes | Yes |
| Retiree Healthcare Provided | Yes (Cook County) | Not usually (out of pocket) | TBD |
| Who Carries Investment Risk? | Employer | Employee | Employee & Employer |
| Who Carries Longevity Risk? | Employer | Employee | Employee |

County (via OpenPensions.org) vs. State via SB1673 vs. City

| | Type of Plan | Funded Status Goal | Changes For? | Employee Contribution | COLA | Retirement Age | Retiree Healthcare |
|----------------------------------|--|--------------------|--------------------------------|--|--|---|---|
| Cook County via OpenPensions.org | Maintains a defined benefit plans *Highlights portability | 80% by 2045 | Current employees and retirees | 1% increase *Based on the statutorily required multiplier the County would pay an additional \$15mm | Changes from a 3% compounding to 3% simple or 1/2 CPI Delay COLA to earlier of age 67 or 5 years after retirement | Retirement age increased 5 years to 65 over a 10 year period, starting in 2013 (or 55 with 30 years of service) | Retiree healthcare will be made permanent, will continue to be subsidized between 45% – 50% |
| City | Maintains a defined benefit plan *Highlights portability | | Current employees and retirees | 5% five year phase-in Increase (1% a year) | Freezing COLA for ten years. | Increase 5 years to 67 | City has committed to partner with retirees on health care provisions |
| State SB 1673 Amendment #3 | Maintains a defined benefit plans Creates a cash balance plan | 100% by 2043 | Current employees and retirees | No Change | Changes from a 3% compounding to 3% simple or 1/2 CPI Delay COLA to earlier of age 67 or 5 years after retirement | No Change | Employees and Retirees will choose between accepting a reduced COLA and staying in the healthcare plan or keeping the same system, but not being eligible for healthcare. |

*Creates over \$5.2 billion dollars worth of savings for Cook County within 15 years and \$65-\$85 billion in savings for the State of Illinois by 2045